LOS ANGELES TIMES EDITORIALS

A New Look at Medicare Drugs

In 1994, the Clinton administration tried to reform Medicare's prescription drug program. It sought to change the fee-for-service system that simply pays bills from hospitals and doctors into a managed care system wherein the government would negotiate fees in advance and reward drug companies for keeping costs under control. Although Medicare covers only a handful of drugs used in hospital critical care wards, the politically mighty drug industry saw federal price controls as a threat to its $20 billion in annual profits. Its lobbyists succeeded in shooting them down, contending that a fee-for-service system would somehow make more drugs available to patients at lower costs.

Now, a newly released study commissioned by Congress shows that just isn't so. Comparing the prices that Medicare paid last year for 34 critical drugs to the prices the Veterans Administration paid for the same drugs in purchasing them directly, the study found that Medicare paid from 15% to an astounding 1,600% more than the VA.

Moreover, Medicare patients, rather than gaining access to a wider range of appropriate drugs than VA patients, often received the most costly and heavily hyped brand-name drugs when less expensive generic drugs would have worked just as well or better.

On Wednesday, the National Bipartisan Commission on the Future of Medicare will meet to advise Congress on how to address the problems highlighted in the federal study. As a first step, the commission ought to rally behind a sensible bill recently introduced by Reps. Thomas H. Allen (D-Maine), Henry A. Waxman (D-Los Angeles) and others to allow Medicare recipients to purchase outpatient drugs at reduced prices negotiated by the government.

The Allen/Waxman bill charts a sensible middle course between widely diverging strategies now being proposed in Congress to improve Medicare.

On one side of the debate stand Republican senators like James M. Jeffords (R-Vt.), who is trying to extend the maximum period a company can exclusively market a brand-name drug (and thus prohibit competitors from making more economical generic equivalents) to 20 years from 14. That's exactly the wrong prescription. As the new federal Medicare study makes clear, the solution is to use fewer, not more, brand-name drugs.

On the other side of the debate stands the chairman of the Medicare Commission, Sen. John B. Breaux (D-La.), who wants to make Medicare cover all medically necessary prescription drugs. Medicare was created in 1965 to cover all of the elderly's health care needs, and Breaux rightly argues that prescription drugs have become "as important as a hospital bed was in 1965, perhaps more so." Breaux's solution currently lacks political viability, but it will gain more support if, as market analysts are now predicting, more HMOs drop their prescription drug plans for the elderly next year.

Washington shouldn't seek to undermine the profits that have motivated American drug companies to innovate far more than their competitors abroad. At the same time, however, the Medicare Commission and Congress have a duty to ensure that those profits are derived from good medicine practiced in a competitive, free marketplace, not extorted through shady deals and slick promotion. Thus the proposal to have the government negotiate the same low prices for its elderly as it secures for its veterans makes sense, especially if Medicare stops spending twice what it should on the few medications it does pay for.